

Message Text

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PAGE 01 PANAMA 06355 052241Z

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SUBJ: MAJOR PROJECTS - PACORA SUGAR MILL AWARD EXPECTED SOON

REF: PANAMA 3993 (TO USDOC)

SUMMARY: CONTRACT FOR \$35 MILLION PACORA SUGAR MILL MAY BE AWARDED BY PANAMA TO WALLCE INDUSTRIAL CONSTRUCTORS (MISSISSIPPI) WHICH WAS APPARENT LOW BIDDER AGAINST JAPANESE AND FRENCH COMPETITORS. DIFFERENCE BETWEEN WALLCE BID (\$29 MILLION) AND JAPANESE BID (\$33 MILLION) WILL BE NARROWED, IF NOT ERASED, BY FINANCING COST WHICH OMITTED FROM FORMER. AWARD TO WALLCE OF THIS MILL PROJECT AND POSSIBLY SECOND MILL, FOR TOTAL \$70 MILLION COULD HINGE ON EXTENT US FINANCING CAN BE IMPROVED COMPARABLE TO JAPANESE OFFER. HIGH PANAMA SUGAR YIELDS AND LOW COSTS, VERSUS HIGH WORLD SUGAR PRICE, RISING DEMAND AND SLOW OUTPUT EXPANSION REPORTEDLY ASSURE FEASIBILITY OF THIS PROJECT OF GREAT IMPORTANCE TO PANAMA ECONOMY-ESPECIALLY IN GENERATING FOREIGN EXCHANGE TO OFFSET OIL IMPORT BILL.

1. AT THE OPENING OF BIDS ON OCTOBER 29 FOR SUPPLY AND CONSTRUCTION OF A PROPOSED NEW SUGAR MILL NEAR PACORA, PANAMA, WALLCE INDUSTRIAL CONSTRUCTORS (WIC), A PASCAGOULA, MISSISSIPPI FIRM, WAS PROVISIONALLY DECLARED SUCCESSFUL LOW BIDDER. THE WIC BID OF \$28,750,000 (PLUS FINANCING COST) WAS "APPARENT"

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PAGE 02 PANAMA 06355 052241Z

LOW BID FOR THIS RELATIVELY LARGE MILL (250 METRIC TONS OF

CANE PER HOUR). ITOH KAWASAKI (JAPAN) SUBMITTED TWO PRICES: PLAN A AT \$35.50 MILLION AND PLAN B AT \$32.99 MILLION. FRENCH FIRM OF FIVES--LILLE CAIL ALSO SUBMITTED PROPOSAL, BUT GOVERNMENT OF PANAMA (GOP) REJECTED IT FOR PROCEDURAL DEFECTS.

2. FOCUS OF COMPETITION FOR THIS IMPORTANT CONTRACT (POSSIBLE KEY TO TOTAL OF 3 MILLS) NOW SHIFTS TO REVIEWS OF TECHNICAL AND FINANCIAL ASPECTS OF PROPOSALS. WIC'S INCLUDES EQUIPMENT OF WELL-KNOWN U.S. SUPPLIERS, I.E., G.E. DORR-OLIVER, LINK-BELT, INGERSOLL-RAND, AND THEREFORE SHOULD HAVE EDGE IN TECHNICAL REVIEWS THIS WEEK. GOP NOT FULLY SATISFIED WITH JAPAN-SUPPLIED LA VICTORIA I MILL. HOWEVER, AS WIC LOW BID PRICE EXCLUDES FINANCING (INCLUDED IN JAPANESE BID) THESE COSTS COULD ERASE THIS US FIRM'S APPARENT ADVANTAGE. TERMS OF JAPANESE FINANCING, WHICH SHOULD BE REVEALED IN NEXT SEVERAL DAYS, ARE EXPECTED TO BE HIGHLY FAVORABLE. THUS, AS GOP PLACES HEAVY EMPHASIS ON FINANCING, ITOH-KAWASAKI COULD WIN STRONG OFFICIAL SUPPORT FOR ITS BID BY LATE NOVEMBER WHEN SPECIAL CABINET COMMITTEE MAKES ULTIMATE AWARD DECISION. CONTRACT SIGNATURE SCHEDULED DECEMBER 1, WORK TO BEGIN JANUARY 1975 AND COMPLETION SET FOR JANUARY 1977.

3. ECONOMIC FEASIBILITY OF PANAMA'S SUGAR PRODUCTION EXPANSION PLANS SEEMS WELL BASED ON HIGH PER ACRE CANE YIELDS (REPORTEDLY UP TO 100 MT PER ACRE VERSUS 30 MT IN LOUISIANA) AND PROSPECT FOR HIGH WORLD SUGAR PRICES FOR NEXT FIVE YEARS. WIC PRESIDENT, L C CUNNINGHAM, TOLD AMBASSADOR JORDEN THAT SUGAR MILL CONSTRUCTION IS LAGGING WELL BEHIND FAST-GROWING WORLD SUGAR DEMAND AND PACORA MILL COULD PAY FOR ITSELF IN TWO OR THREE YEARS. WIC HOPES THIS EXCELLENT ECONOMIC PROSPECT WILL ENABLE IT SECURE BEST POSSIBLE EXIMBANK AND COMMERCIAL COVERAGE AND TERMS AND ALSO ENABLE IT DOWNPLAY WITH GOP THE SIGNIFICANCE OF REPORTEDLY MORE FAVORABLE JAPANESE FINANCING. WIC NEVERTHELESS FEELS IT ESSENTIAL IMPROVE ON ITS OWN UNCERTAIN (EXIMBANK COMMITMENT NOT YET RECEIVED) FINANCING PACKAGE, WHICH IS: (FOREIGN COSTS) 10 PERCENT DOWN; 30 PERCENT EXIMBANK AT 7 PERCENT INTEREST; 30 PERCENT EXIMBANK GUARANTEED COMMERCIAL LOAN AT 1-1/8 PERCENT OVER LONDON MARKET; 30 PERCENT COMMERCIAL, GUARANTEED BY GOP AND LA VICTORIA I MILL AT 1-3/4 UNCLASSIFIED

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PAGE 03 PANAMA 06355 052241Z

PERCENT ABOVE LONDON RATE; INTEREST PAYABLE SEMI-ANNUALLY DURING 8-YEAR OVERALL TERM, WITH PRINCIPAL REPAYMENT IN REVERSE OF ABOVE ORDER.

4. COMMENT/ACTION: ALTHOUGH WALLACE INDUSTRIAL HAS APPARENT EDGE ON PRICE AND TECHNICAL GROUNDS, ITOH/KAWASAKI IS STRONG CONTENDER. PANAMA'S ALREADY SUBSTANTIAL LOAN POSITION WITH PUBLIC INTERNATIONAL AND PRIVATE COMMERCIAL BANKS AND ITS

COMMITMENTS TO IMF MAKES IT PLACE HEAVY EMPHASIS ON PROJECT FINANCING, THEREBY GIVING JAPANESE POSSIBLE EDGE. IMPORTANCE PROJECT FAR GREATER THAN \$28.75 MILLION WIC BID, BECAUSE GOP BELIEVED CONSIDERING "ADD-ONS" BRINGING TOTAL TO \$35 MILLION. THERE IS EXCELLENT POSSIBILITY, TOO, THAT ULTIMATE CONTRACT WILL INCLUDE PROPOSED CHIRIQUI MILL IN ADDITION PACORA MIL AT COMBINED PRICE OF \$70 MILLION. EMBASSY REQUESTS USDOC AND STATE CONSIDER WAYS WIC BID CAN BE STRENGTHENED WITH FINANCING TERMS AND CONDITIONS COMPETITIVE (AS NEARLY AS POSSIBLE) WITH THOSE IN JAPANESE BID. LATTER ARE EXPECTED TO BE REVEALED IN WIC/GOP TALKS AT EXIMBANK EARLY IN WEEK OF NOVEMBER 11.

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